

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
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Gregory Scott

Chair
Commissioner
Commissioner
Commissioner

In the Matter of Interstate Power and Light
Company's Petition for a Change in the Base
Energy Adjustment Cost

ISSUE DATE: July 17, 2003

DOCKET NO. E-001/MR-03-768

ORDER SETTING BASE COST OF
ENERGY

PROCEDURAL HISTORY

On May 19, 2003, Interstate Power and Light (IPL or the Company) filed a petition for a change in the Base Energy Adjustment Charge. In its filing the Company proposed a new base cost of energy of \$0.01669 per kWh, to be used in its energy adjustment charge calculation to coincide with the implementation of interim rates in IPL's general rate proceeding.

On May 19, 2003 the Company also filed a petition for a general increase in electric rates. For the test year the Company proposed to use the historical calendar year ended 2002, adjusted for certain known and measurable changes.

On June 17, 2003, the Department of Commerce (DOC) filed comments recommending acceptance of the Company's proposed base energy cost. The DOC did not address the issue of whether the costs in this docket appropriately tie to the rate case.

On June 20, 2003, the Company filed reply comments.

On July 8, 2003, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. The Company's Proposal

IPL proposed a new base cost of energy of \$0.01669 per kWh to be used in its energy adjustment charge calculation. This proposal was made contemporaneously with its Petition to Increase Electric Rates in the Minnesota Rate Case.¹

¹ Docket No. E001/GR-03-767.

II. The Issue

IPL's proposed new base cost of energy of \$0.01669 per kWh would generally apply to the 12 month test year chosen by IPL in the rate proceeding, which is the 2002 calendar year. However, the cost of energy that IPL included in the rate case cost of service was \$13,624,869 for 796,399,576 kWh sales. This puts the cost of energy in the interim rate request at \$0.01711 per kWh.

Applying the \$0.01669 per kWh base cost of energy for fuel adjustment purposes to the test year sales of 796,399,576 kWh would result in a cost of energy of \$13,291,909. This is \$332,960 less than the energy costs claimed in the rate case test year.

The difference between the cost of energy in this docket and the cost of energy in the interim rate docket raises the question not only of whether the Company's cost of energy request should be approved but also how to reconcile these two dockets.

III. Legal Standards

Minnesota Rules state that the purpose of rules governing automatic adjustment of charges

is to enable regulated gas and electric utilities to adjust rates to reflect changes in the cost of energy delivered to customers from those costs authorized by the commission in the utility's most recent general rate case...

Minn. Rules part 7825.2390.

The Rules define "base electric cost" as:

...the cost of fuel consumed in the generation of electricity and the cost of purchased power in the base period expressed as a cost per kilowatt-hour sold.

Minn. Rules part 7825.2400, Subp.4.

The Rules further define "base period" as:

...the 12-month period during which the automatic adjustment of charges is set at zero.

Minn. Rules part 7825.2400, Subp.5.

In the present docket, the cost of fuel and purchased power in the base period is in reference to these costs in the interim rate proceeding in Docket No. E001/GR-03-767.

When setting new customer rates, as in the interim rate petition before the Commission in the Company's general rate case, the fuel clause adjustment is zeroed out and a new base energy cost is established.

IV. Position of the Parties

A. The DOC

The DOC argued that the Company's base cost of energy calculation was reasonable and recommended that \$0.01669 per kWh base cost of energy be accepted. The DOC noted that if there were any significant adjustments to the cost of energy during the rate case, or the consolidation of the IPC and IES costs into IPL were not allowed, then the base cost of energy may need to be reconsidered.

At the meeting before the Commission, the DOC reiterated that its analysis showed that the \$0.01669 per kWh cost of energy was reasonable and well supported, while the alternative figure of \$0.01711 per kWh was not.

The DOC also argued that there could be confusion if the base cost of energy developed in this proceeding differs from the energy costs included in developing interim rates in the rate proceeding.

B. The Company

The Company had proposed a base cost of energy of \$0.01669 in this docket but used another cost of energy in the interim rate docket.

The Company argued that both the \$0.01711 per kWh and the \$0.01669 per kWh cost of energy figures were appropriate. One number sets the energy costs for establishing rates for Minnesota consumers, the other number establishes the system energy costs from which changes in energy costs can be determined for purposes of calculating the monthly fuel adjustment. The Company argued that they do not need to be the same, since the base energy cost number is largely a reference point from which the fuel adjustment is calculated.

At the meeting before the Commission, the Company proposed adjusting the Company's base energy cost to \$0.01711 to tie to the cost of energy included in interim rates. The Company would then file an interim tariff changing the formula for establishing the energy adjustment charge to match the methodology used to establish this base cost of energy.

The Company argued that over \$300,000 in fuel costs would be under-recovered if it was unable to apply the \$0.01711 per kWh cost of energy in the interim rate proceeding. The Company argued that the cost of energy included in the interim rate case was the Company's actual cost of energy and that the Company should not be denied the right to collect this in the interim rates.

V. Commission Action

The Commission will set IPL's base energy cost at \$0.01669 per kWh, and reduce the interim test year energy costs and interim increase by \$332,960, to reflect the costs of energy claimed herein. However it will also give the Company an opportunity to prove that its base cost of energy is higher than this and, if proved, would allow a true-up for actual costs of energy not collected. The Company has agreed to file its case supporting its position in 30 days in the rate case proceeding.

The Commission has consistently established a base energy cost that was the same as the cost of energy included in the rates set in an interim rate proceeding. It is not persuaded that it should change that in the present case. Further, the base cost of energy approved herein was well documented by the Company's filing. The Commission cannot approve another rate which is not well supported in the record. Allowing the \$0.01711 per kWh rate to be applied in the interim rate case, without evidence supporting that it was a recoverable cost of energy, would result in excess charges to the customer.

ORDER

1. IPL's base energy cost shall be set at \$0.01669 per kWh and IPL shall reduce the interim test year energy costs and interim increase by \$332,960, to reflect the costs of energy claimed in the instant petition.
2. The base energy cost issue for final rates shall be developed in the rate proceeding.
3. The Company shall be given an opportunity to prove that its base cost of energy is higher than the \$0.01669 per kWh. Any difference proved shall be subject to true-up at the conclusion of the rate case. The Company has 30 days from the date of this Order to file its case in this matter in the rate case proceeding.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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